



North Kent Sewer Authority

Kent County, Michigan

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2008

NORTH KENT SEWER AUTHORITY

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INDEPENDENT AUDITORS' REPORT

February 20, 2009

North Kent Sewer Authority
Board of Trustees
Rockford, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the North Kent Sewer Authority (the Authority), Kent County, Michigan, as of and for the year ended December 31, 2008, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the North Kent Sewer Authority as of December 31, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the budgetary comparison information on pages 3-7 and 27 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Vredeveld Haefner LLC

Management's Discussion and Analysis

As management of the North Kent Sewer Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2008. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

The North Kent Sewer Authority is a joint venture established to construct and maintain sewer system infrastructure utilized by participating municipalities. Participating municipalities include Alpine, Cannon and Courtland Townships, Plainfield Charter Township and the City of Rockford.

Financial Highlights

- Staff hired to manage and maintain the newly constructed sewage treatment plant
- The new sewage treatment plant began operations in October
- Participant sewage flow to the City of Grand Rapids treatment plant was terminated in December

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements. The Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business. The government-wide financial statements include only the Authority itself (known as the *Primary government*). The Authority has no legally separate component units for which the Authority is financially accountable. In this report, financial information for the Authority is reported separately from the financial information of joint venture participants.

The *statement of net assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., payments on debt).

Both of the government-wide financial statements display functions of the Authority that are principally supported by intergovernmental revenues (*governmental activities*). The governmental activities of the Authority include public works and interest payments on bonds outstanding. The Authority does not have any business-type activities.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Authority are governmental funds. The Authority does not utilize proprietary or fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Authority maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, six debt service, and the wastewater treatment plant capital projects funds which are all considered to be major funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. Required supplementary information includes this management's discussion and analysis and the budget and actual comparison.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$4,779,333 at the close of the most recent fiscal year.

The most significant portion of the Authority's net assets reflects investment in capital assets (e.g., land, and infrastructure), less any related debt used to acquire those assets that is still outstanding plus the unspent proceeds from the debt. The Authority uses these capital assets to provide services to joint venture participants; consequently, these assets are *not* available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Governmental Activities	
	<u>2008</u>	<u>2007</u>
Assets		
Current assets	\$ 6,534,364	\$21,252,783
Noncurrent assets		
Due from governmental units	2,195,473	2,352,014
Capital assets	59,046,847	43,333,652
Total assets	67,776,684	66,938,449
Liabilities		
Current liabilities	1,482,386	1,204,077
Long-term liabilities	61,514,965	61,625,761
Total liabilities	62,997,351	62,829,838
Net assets		
Invested in capital assets, net of related debt	1,389,987	1,143,806
Restricted	2,338,911	1,824,132
Unrestricted	1,050,435	1,140,673
Total net assets	\$ 4,779,333	\$ 4,108,611

Net assets of the Authority increased by \$670,722. The increase in net assets is primarily the result of the timing difference between when joint venture participants provide funding for debt service on capital bonds and when depreciation is recorded on the capital assets funded by these bonds.

	Governmental Activities	
	<u>2008</u>	<u>2007</u>
Revenue		
Program revenue		
Charges for services	\$4,038,579	\$5,207,559
General revenue		
Unrestricted investment earnings	25,348	3,350
Total revenue	4,063,927	5,210,909
Expenses		
Public works	676,188	325,932
Interest	2,717,017	2,600,590
Total expenses	3,393,205	2,926,522
Increase (decrease) in net assets	670,722	2,284,387
Net assets-beginning of year	4,108,611	1,824,224
Net assets-end of year	\$4,779,333	\$4,108,611

Governmental activities

During the year 20% of Authority expenses were for public works which included \$421,965 for operations and maintenance of the system and \$254,223 for depreciation on system infrastructure. The remaining \$2,715,059 of total expenses was for interest and other bond costs.

Financial Analysis of the Government's Funds

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Authority's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Authority's financing requirements. In particular, *fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$5,044,003, a decrease of \$15,609,703 in comparison with the prior year. This decrease is primarily the result of the capital expenditures for the construction of the wastewater treatment plant project.

The general fund is the chief operating fund of the Authority. At the end of the current fiscal year, unreserved undesignated fund balance of the general fund was \$639,421. As a measure of the general fund's liquidity, it is important to note that the general fund operates on a reimbursement basis from joint venture participants. During the current year \$550,000 of connection fees transferred from debt service funds and \$50,000 of participant contributions were recorded in the general fund to provide operating liquidity.

Budgetary Highlights

The Authority adopted an annual appropriated budget for its general fund for 2008. The budget was not amended during the year.

Capital Asset and Debt Administration

Capital assets. The Authority's investment in capital assets for its governmental activities as of December 31, 2008, amounted to \$59,046,847 (net of accumulated depreciation).

Significant capital asset additions during the year include construction in progress for the wastewater treatment plant.

The Authority's Capital Assets (net of depreciation) are summarized as follows:

	Governmental Activities
Land and right-of-way	\$ 874,265
System infrastructure	<u>58,172,582</u>
Total	<u>\$59,046,847</u>

Additional information on the Authority's capital assets can be found in Note 3 of this report.

Debt. At the end of the current fiscal year, the Authority had bonded debt outstanding of \$59,760,000.

Additional information on the Authority's long-term debt can be found in Note 4 of this report.

Economic Factors and Next Year's Budgets and Rates

- Rates are based on flow rates, content analysis, and various other factors as identified in the system operating agreement. These rates are designed to fund bond principal and interest payments and direct operating and maintenance costs.

- 2009 will be the first full year of operations for the plant. Expected operating costs will have a significant impact on the budget process as operating expenses and related revenues are projected for the first time.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the North Kent Sewer Authority, Treasurer, 7 South Monroe, PO Box 561, Rockford, MI 49341-0560.

BASIC FINANCIAL STATEMENTS

NORTH KENT SEWER AUTHORITY

STATEMENT OF NET ASSETS

DECEMBER 31, 2008

	Governmental Activities
Assets	
Cash	\$ 981,946
Investments	4,892,182
Due from other governments	638,766
Due from other governments long-term	2,195,473
Prepays	21,470
Capital assets	
Land and right-of-way	874,265
System infrastructure (net of accumulated depreciation)	<u>58,172,582</u>
Total assets	<u>67,776,684</u>
Liabilities	
Accounts payable	1,469,286
Accrued liabilities	13,100
Noncurrent liabilities	
Compensated absences	7,975
Rebatable arbitrage	480,851
Unamortized bond premiums	1,266,139
Due within one year	1,565,000
Due in more than one year	<u>58,195,000</u>
Total liabilities	<u>62,997,351</u>
Net assets	
Invested in capital assets, net of related debt	1,389,987
Restricted for	
Debt service	2,338,911
Unrestricted	<u>1,050,435</u>
Total net assets	<u>\$ 4,779,333</u>

The accompanying notes are an integral part of these financial statements.

NORTH KENT SEWER AUTHORITY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2008

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government				
Governmental activities				
Public works	\$ 676,188	\$ 4,038,579	\$ -	\$ -
Interest on long-term debt	<u>2,717,017</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 3,393,205</u>	<u>\$ 4,038,579</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues				
Unrestricted interest earnings				<u>25,348</u>
Total general revenues				<u>25,348</u>
Change in net assets				670,722
Net assets, beginning of year				<u>4,108,611</u>
Net assets, end of year				<u>\$ 4,779,333</u>

The accompanying notes are an integral part of these financial statements.

NORTH KENT SEWER AUTHORITY

GOVERNMENTAL FUNDS BALANCE SHEET

DECEMBER 31, 2008

	<u>General</u>	<u>1998 Bonds</u>	<u>2000 Bonds</u>
Assets			
Cash	\$ 566,913	\$ -	\$ -
Investments	-	-	-
Due from other governments	123,302	2,195,473	-
Prepays	<u>21,470</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 711,685</u>	<u>\$ 2,195,473</u>	<u>\$ -</u>
Liabilities and fund balances			
Liabilities			
Accounts payable	\$ 59,164	\$ -	\$ -
Accrued Liabilities	13,100	-	-
Deferred revenue	<u>-</u>	<u>2,195,473</u>	<u>-</u>
Total liabilities	72,264	2,195,473	-
Fund balances			
Unreserved			
Undesignated	<u>639,421</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>639,421</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 711,685</u>	<u>\$ 2,195,473</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

Debt Service				Capital Projects	
2001 Bonds	2002 Bonds	Wastewater Treatment Plant	2007 Refunding Bonds	Wastewater Treatment Plant	Total
\$ -	\$ -	\$ 360,788	\$ -	\$ 54,245	\$ 981,946
-	-	22,732	-	4,869,450	4,892,182
-	-	27,494	-	12,689	2,358,958
-	-	-	-	-	21,470
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 411,014</u>	<u>\$ -</u>	<u>\$ 4,936,384</u>	<u>\$ 8,254,556</u>
\$ -	\$ -	\$ -	\$ -	\$ 942,816	\$ 1,001,980
-	-	-	-	-	13,100
-	-	-	-	-	2,195,473
-	-	-	-	942,816	3,210,553
-	-	411,014	-	3,993,568	5,044,003
-	-	411,014		3,993,568	5,044,003
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 411,014</u>	<u>\$ -</u>	<u>\$ 4,936,384</u>	<u>\$ 8,254,556</u>

NORTH KENT SEWER AUTHORITY

RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS

DECEMBER 31, 2008

Fund balances - total governmental funds	\$ 5,044,003
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Amounts reported for *governmental activities* in the statement of net assets are different because

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.

Add - capital assets (net)	59,046,847
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Certain assets reported on the statement of net assets are not receivable in the current period and therefore are not reported in the funds.

Add - accrued interest receivable from participants	475,281
Add - deferred revenue on long-term receivable due from participants	2,195,473

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds payable	(59,760,000)
Deduct - unamortized bond premium	(1,266,139)
Deduct - rebatable arbitrage	(480,851)
Deduct - compensated absences	(7,975)
Deduct - accrued interest on bonds	<u>(467,306)</u>

Net assets of governmental activities	<u>\$ 4,779,333</u>
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The accompanying notes are an integral part of these financial statements.

NORTH KENT SEWER AUTHORITY

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES

AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>General</u>	<u>1998 Bonds</u>	<u>2000 Bonds</u>
Revenues			
Intergovernmental revenue			
Participant fees	\$ 478,528	\$ 323,038	\$ 154,044
Connection fees	-	-	-
Interest	5,198	-	-
Total revenues	<u>483,726</u>	<u>323,038</u>	<u>154,044</u>
Expenditures			
Current			
Public works	413,990	-	-
Capital outlay	-	-	-
Debt service			
Principal	-	200,000	135,000
Interest	-	123,038	19,044
Total expenditures	<u>413,990</u>	<u>323,038</u>	<u>154,044</u>
Revenues over (under) expenditures	69,736	-	-
Other financing sources (uses)			
Transfers in	550,000	-	-
Transfers out	-	-	-
Total other financing sources (uses)	<u>550,000</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	619,736	-	-
Fund balances, beginning of year	<u>19,685</u>	<u>-</u>	<u>-</u>
Fund balances, end of year	<u>\$ 639,421</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

Debt Service		Capital Projects			Total
<u>2001 Bonds</u>	<u>2002 Bonds</u>	<u>Wastewater Treatment Plant</u>	<u>2007 Refunding Bonds</u>	<u>Wastewater Treatment Plant</u>	
\$ 407,998	\$ 83,025	\$ 1,167,940	\$ 268,684	\$ -	\$ 2,883,257
-	-	793,225	-	-	793,225
-	-	20,150	-	447,953	473,301
<u>407,998</u>	<u>83,025</u>	<u>1,981,315</u>	<u>268,684</u>	<u>447,953</u>	<u>4,149,783</u>
-	-	-	-	-	413,990
-	-	-	-	15,967,418	15,967,418
175,000	70,000	-	25,000	-	605,000
<u>232,998</u>	<u>13,025</u>	<u>2,141,289</u>	<u>243,684</u>	<u>-</u>	<u>2,773,078</u>
<u>407,998</u>	<u>83,025</u>	<u>2,141,289</u>	<u>268,684</u>	<u>15,967,418</u>	<u>19,759,486</u>
-	-	(159,974)	-	(15,519,465)	(15,609,703)
-	-	-	-	-	550,000
<u>-</u>	<u>-</u>	<u>(550,000)</u>	<u>-</u>	<u>-</u>	<u>(550,000)</u>
<u>-</u>	<u>-</u>	<u>(550,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	(709,974)	-	(15,519,465)	(15,609,703)
-	-	1,120,988	-	19,513,033	20,653,706
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 411,014</u>	<u>\$ -</u>	<u>\$ 3,993,568</u>	<u>\$ 5,044,003</u>

NORTH KENT SEWER AUTHORITY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2008

Net changes in fund balances - total governmental funds	\$ (15,609,703)
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Amounts reported for *governmental activities* in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	15,967,418
Deduct - depreciation expense	(254,223)

Repayment of bond principal is an expenditure in the governmental funds but repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on bonds	605,000
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Some revenues and expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported in the funds.

Add - increase in interest receivable from participants	4,416
Deduct - payments from participants on long-term receivables	(156,541)
Add - decrease in rebatable arbitrage	66,826
Deduct - increase in accrued interest payable	(4,416)
Deduct - increase in compensated absences	(7,975)
Add - increase in compensated absences receivable from participants	7,975
Add - amortization of bond premium and issuance costs	51,945

Change in net assets of governmental activities	<u>\$ 670,722</u>
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The accompanying notes are an integral part of these financial statements.

NORTH KENT SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the North Kent Sewer Authority (the Authority) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

Reporting Entity The North Kent Sewer Authority, which is established pursuant to Michigan Act 233, is a joint venture governed by a five member Board of Trustees appointed by the legislative bodies of five participating municipalities. The Authority was established to construct and maintain sewer system infrastructure utilized by participating municipalities. Participating municipalities include:

City of Rockford
Alpine Township
Cannon Township
Courtland Township
Plainfield Charter Township

Participating municipalities fund operating and debt service costs based on their common and exclusive sewer system usage. The criteria established by the Governmental Accounting Standards Board for determining the reporting entity includes a significant operational financial relationship with another entity. Based on the above criteria, these financial statements present all funds of the North Kent Sewer Authority.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the governmental activities of the primary government (the Authority). For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, are reported in total. The Authority has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. The Authority utilizes no proprietary or fiduciary funds. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Major governmental funds are reported as separate columns in the fund financial statements.

The Authority reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

NORTH KENT SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

The *Debt Service Funds* including the 1998 Series, West River 2000 Series, 4 Mile Lift 2001 Series, Willow 2002 Series, Wastewater Treatment Plant 2006 series, and the 2007 Refunding Bonds, all account for the receipt of participants payments and the payment of principal and interest on debt utilized to finance infrastructure reconstruction, expansion and/or improvement projects.

The Wastewater Treatment Plant Construction *Capital Projects Fund* is used to account for construction of the new wastewater treatment plant.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Joint venture participant fees and connection fees are recognized as revenues in the year for which they are assessed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for joint venture participant assessments, connection fees and interest which use one year. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. Exceptions to this general rule include principal and interest on long-term debt and compensated absences which are recognized when due.

All Governmental Funds are accounted for on a spending or "flow of current financial resources" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance is considered a measure of "available, spendable resources".

Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available, spendable resources" during a period.

NORTH KENT SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

Budgets and Budgetary Accounting

The Authority's procedures for establishing budgetary data are as follows:

- The Treasurer submits a proposed budget for the upcoming year to the Authority's Board.
- The budget is reviewed by the Authority's Board and a public hearing is held. Prior to the beginning of the year, the budget is adopted by the Authority's Board.
- The budget for the General Fund is adopted following the modified accrual basis of accounting (a basis consistent with generally accepted accounting principles).
- Budget amounts shown in the financial statements consist of those amounts contained in the original and amended budget.
- The Authority adopts a budget for the general fund at the line item level of detail by means of an appropriations act.

Cash and Investments

Cash consists of the balance in a checking account while investments are certificates of deposits and other balances with Michigan financial institutions. Michigan law authorizes the Authority to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended.

Due From Other Governments

All balances due from other governments represent balances due from joint venture participants. These balances are reported net of estimated uncollectible balances (estimated uncollectible balances were zero at year end).

NORTH KENT SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

Deferred Revenue

The Authority reports deferred revenue when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenue represents amounts due from participants in the future for a specific portion of the 1998 debt service.

Capital Assets

Capital assets, which include land, property, equipment and infrastructure are reported in the governmental activities column in the government-wide financial statements.

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation on capital assets, is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
System infrastructure	50

Long-Term Obligations

In the government-wide financial statements the long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs during the year of issuance. The face amount of debt issued and any premiums received are reported as other financing sources. Discounts on debt issuances are reported as other financing uses. Issuance costs are reported as public works expenditures.

Compensated Absences

Authority policy provides employees with a vested right to receive payments for unused vacation and sick time benefits under formulas and conditions specified in the personnel policy. Accumulated vacation and sick time of governmental funds is recorded on the statement of net assets and not on the governmental fund balance sheets because it is not expected to be liquidated with expendable available financial resources. Compensated absences reported for governmental activities are primarily liquidated from general fund resources.

NORTH KENT SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

Fund Equity/Net assets

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent amounts set aside by the Board for tentative plans for future use.

2. CASH AND INVESTMENTS

The captions on the financial statements relating to cash and investments are as follows:

	Governmental Activities
Cash	\$ 981,946
Investments	<u>4,892,182</u>
Cash and investments	<u>\$5,874,128</u>

These deposits and investments, which consist of certificates of deposits, are in financial institutions located in Michigan. All accounts are in the name of the Authority and a specific fund or common account. They are recorded in Authority records at fair value.

Investment and deposit risk

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. As of year end, \$5,627,082 of the Authority's bank balance of \$5,877,082 was exposed to custodial credit risk because it was uninsured and uncollateralized.

3. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	Balance January 1, 2008	Additions	Deletions	Balance December 31, 2008
Governmental Activities				
Capital assets, not being depreciated				
Land and right-of-way	\$ 874,265	\$ -	\$ -	\$ 874,265
Construction in Progress	30,892,264	15,967,418	(46,859,682)	-
Total capital assets, not being depreciated	<u>31,766,529</u>	<u>15,967,418</u>	<u>(46,859,682)</u>	<u>874,265</u>
Capital assets, being depreciated				
Infrastructure	12,711,126	46,859,682	-	59,570,808
Accumulated depreciation	1,144,003	254,223	-	1,398,226
Net capital assets, being depreciated	<u>11,567,123</u>	<u>46,605,459</u>	<u>-</u>	<u>58,172,582</u>
Governmental Activities capital assets, net	<u>\$43,333,652</u>	<u>\$62,572,877</u>	<u>\$(46,859,682)</u>	<u>\$59,046,847</u>

Depreciation expense of \$254,223 was charged to the public works function.

NORTH KENT SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

4. LONG-TERM DEBT

The following is a summary of long-term debt activity and balances of the Authority for the year ended December 31, 2008:

	<u>Balance January 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2008</u>	<u>Due Within One Year</u>
Governmental Activities					
1998 Sewer Bonds due in annual installments from \$120,000 to \$365,000 through May 2018; interest at 3.0% to 7.0%.	\$ 3,005,000	\$ -	\$ 200,000	\$ 2,805,000	\$210,000
2000 Sewer Bonds due in annual installments from \$125,000 to \$150,000 through May 2010; interest at 5.25%.	425,000	-	135,000	290,000	140,000
2001 Sewer Bonds due in annual installments from \$105,000 to \$325,000 through November 2026; interest at 2.6% to 4.9%.	5,080,000	-	175,000	4,905,000	175,000
2002 Sewer Bonds due in annual installments from \$70,000 to \$85,000 through November 2011; interest at 3.80% to 4.10%.	320,000	-	70,000	250,000	80,000
2005 Sewer Bonds due in annual installments from \$180,000 to \$405,000 beginning in 2009 through November 2025; interest at 3.5% to 4.5%.	6,000,000	-	-	6,000,000	180,000
2006 Sewer Bonds due in annual installments from \$755,000 to \$4,000,000 beginning in 2009 through November 2031; interest at 4% to 5%.	39,600,000	-	-	39,600,000	755,000
2007 Refunding Bonds due in annual installments from \$25,000 to \$505,000 through May 2027, interest at 4.0% to 4.25%	5,935,000	-	25,000	5,910,000	25,000
Total debt	60,365,000	-	605,000	59,760,000	1,565,000
Accrued employee benefits	-	7,975	-	7,975	-
Total Governmental Activities	\$60,365,000	\$ 7,975	\$605,000	\$59,767,975	\$1,565,000

NORTH KENT SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

Following is a summary of future principal maturities and interest requirements:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 1,565,000	\$ 2,739,257
2010	1,655,000	2,669,110
2011	1,695,000	2,596,888
2012	1,775,000	2,524,792
2013	1,865,000	2,451,905
2014-2018	10,395,000	11,094,178
2019-2023	12,890,000	8,599,121
2024-2028	16,255,000	5,294,036
2029-2031	11,665,000	1,173,775
Total	\$59,760,000	\$39,143,062

5. RELATED PARTY TRANSACTIONS

Charges for services and fiscal year-end receivables are attributable to related parties as follows:

	<u>Intergovernmental Revenue</u>	<u>Due From Other Governments</u>
Alpine Township	\$ 701,695	\$ 132,890
Cannon Township	269,910	54,403
Courtland Township	76,487	11,186
Plainfield Charter Township	1,987,500	2,396,169
City of Rockford	640,890	239,590
Total	\$3,676,482	\$2,834,239

6. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, destruction of assets and errors and omissions for which it obtains coverage from commercial insurance companies. The Authority has had no settled claims resulting from these risks that exceeded commercial coverage in any of the past three years.

NORTH KENT SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

7. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

Michigan law, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the North Kent Sewer Authority's actual and budgeted expenditures for the budgeted funds have been shown on an activity level within a function. The approved budgets of the North Kent Sewer Authority for these budgeted funds were adopted at the line item level.

During the year ended December 31, 2008, the North Kent Sewer Authority incurred expenditures which were in excess of the amounts appropriated as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General fund			
Public works	\$ 411,300	\$413,900	\$2,690

8. PENSION PLANS

Defined Contribution Pension Plan

North Kent Sewer Authority's Employee Retirement System is a defined contribution plan, which provides pension benefits to substantially all employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate immediately upon employment. The Authority contributes 7% of each participant's base salary to the plan. Employees are required to contribute at least 3% of their base salary. The Authority's contributions for this employee group vest based on year of service with 100% vesting occurring after 6 years of service. The plan provisions and contribution amounts were established by the Authority Board and may be amended by the Authority Board. The plan is administered by the Michigan Municipal Employees Retirement System (MERS).

The Authority and Authority employees made contributions of \$6,921 and \$2,966 respectively during 2008.

REQUIRED SUPPLEMENTARY INFORMATION

NORTH KENT SEWER AUTHORITY

GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2008

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental revenue				
Participant fees	\$ 414,000	\$ 414,000	\$ 478,528	\$ 64,528
Interest	5,500	5,500	5,198	(302)
Total revenues	<u>419,500</u>	<u>419,500</u>	<u>483,726</u>	<u>64,226</u>
Expenditures				
Current				
Public works	<u>411,300</u>	<u>411,300</u>	<u>413,990</u>	<u>(2,690)</u>
Total expenditures	<u>411,300</u>	<u>411,300</u>	<u>413,990</u>	<u>(2,690)</u>
Revenues over (under) expenditures	8,200	8,200	69,736	61,536
Other financing sources				
Transfers in	<u>550,000</u>	<u>550,000</u>	<u>550,000</u>	<u>-</u>
Net changes in fund balance	558,200	558,200	619,736	61,536
Fund balance, beginning of year	<u>19,685</u>	<u>19,685</u>	<u>19,685</u>	<u>-</u>
Fund balance, end of year	<u>\$ 577,885</u>	<u>\$ 577,885</u>	<u>\$ 639,421</u>	<u>\$ 61,536</u>



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February 20, 2009

To the Board of Trustees
North Kent Sewer Authority

We have audited the financial statements North Kent Sewer Authority for the year ended December 31, 2008, and have issued our report thereon dated February 20, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated January 13, 2009, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on February 10, 2009.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by North Kent Sewer Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements is the useful lives of capital assets.

Management's estimate of the useful lives of capital assets is based on historical actual usefulness and expected future usefulness of those assets. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 20, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board and management of the North Kent Sewer Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Ordenold Haefner LLC